

China's Global Quest for Oil

China's Oil Rush in Africa - Nigeria

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China's influence in Africa is extending to Nigeria, a country that has historically exported the majority of its oil to Western countries. In Nigeria, the majority of the exported oil is currently destined for the U.S. and Western Europe. China, however, is becoming increasingly important to the African country.

Over five years ago, China had been shut out of Nigeria by Western firms. However, through patience, political prowess, and technological contributions, Chinese firms are gaining a foothold in the Nigeria's oil industry and elsewhere in the country. For example, in December 2004 Sinopec and

NNPC signed an agreement to develop Oil Mining Lease (OML) 64 and 66, located in the waters of the Niger Delta in South Nigeria. At the time, OML 64 had drilled five exploration wells with one well encountering hydrocarbon resources. OML 66 had drilled 18 exploration wells with 12 encountering hydrocarbon resources.

In October 2004, Xinhuanet reported that Nigeria would need \$10 billion annually in the next five years to meet its target for oil reserves of 40 billion barrels by 2010 and to eliminate gas flaring by the end of 2008. The Nigerian government signed a memorandum of understanding with China National Offshore Oil Corp. (CNOOC) to identify suitable upstream oil and gas assets that would be integrated into the downstream projects, including refining, power generation, petrochemicals and fertilizer, in partnership with local industry players. In July 2005, CNOOC and NNPC signed an \$800 million contract that would guarantee China receives 30,000 bpd for one year. More recently, and having a profound impact, was a mutually beneficial deal between China and Nigeria signed by President Hu.

In exchange for a \$4 billion investment on infrastructure, CNPC was given first refusal rights on four oil blocks. Over the past few years, through continued patience and geopolitical prowess, the pendulum has been swinging in China's direction. Nigeria has reportedly favored Asian investors, who are more willing to offer vitally needed infrastructure developments in exchange for drilling rights. In time, China could easily replace some of these Western firms when drilling licenses come up for renewal.

Meanwhile, as China's involvement in Nigeria increases, so too does the Chinese population in the African country, growing from 8,300 in 1993 to 45,000 in 2007. Chinese nationals have over

30 solely owned companies or joint ventures in Nigeria. Nigeria's China Town evolved as a mere trading settlement. According to unconfirmed sources, "the Chinese government deliberately contrived the ploy to spread its business tentacles by other means through the establishment of the China Town in Nigeria. While China Town has the appearance of a trading market and is managed by International Cooperation Industry Nigeria Limited, only 40 of its 120 shops belong to Nigerians. The rest belong to Chinese traders.

As of 2007, Nigeria was the number one oil producer in Africa and listed by the Energy Information Administration as the world's twelfth largest oil producer. Despite its great oil wealth, Nigeria is one of the poorest countries in the world, with over 70 percent of its population living on less than one dollar per day. Some 80 percent of the government's revenues come from the oil sector.

Having an estimated 36 billion barrels of oil reserves, in 2007, Nigeria produced an average of 2.3 million bpd and was hoping to increase its oil production to 4 million bpd by 2010. Today, however, Nigeria's production is being affected by growing sectarian violence in the Niger Delta where rebels often sabotage oil infrastructure, abduct oil employees and threaten to drive foreign oil companies away from the region. Due to a recent upsurge in attacks on oil company facilities and theft of oil in the region, oil production in Nigeria has fallen to levels below 1 million bpd.

Much of the violence in Nigeria is linked to a group called the Movement for the Emancipation of the Niger Delta (MEND). The group's aim is to take control of Nigeria's oil so that the local people can benefit from the revenues. MEND also views oil exploration in the region as damaging to the environment, which further hurts the local population.

During the China-Africa Summit in November 2006, Nigeria pledged more oil to China if oil output rose. Through increased stability, China has an opportunity to become a favored customer in the region. According to an interview during the China-Africa summit in Beijing, Edmund Daukoru, president of OPEC said, "A lot of the customers that we have been turning back could start to have long-term supply agreements, and the Chinese could be preferred customers in that regard."

Between the violence and growing Chinese influence, Nigerian oil exports to the U.S. may be facing an uncertain future in the long term. China is driven in a relentless quest for oil to support its economic growth. Its exploding economy could potentially result in an economic and socioeconomic crisis if China is not able to obtain the resources necessary to support it. Oil is at the forefront of China's requirements list, being integral to a myriad of industrial and consumer needs, and its global view.

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